

# New Energy Tax Credits

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**O**n January 1, a set of federal energy efficiency tax credits went into effect, making it easier for American families and businesses to reduce energy costs at home, at work, and on the road. These credits are designed to improve our nation's energy efficiency, while helping you offset the costs of purchasing and installing energy efficient appliances, renewable energy systems, and fuel-efficient vehicles, such as hybrid electric cars and trucks.

So how can you better your bottom line while investing in energy efficiency and renewable energy? Let's look at these new tax credits that are being provided, and discuss how you can use them to your advantage.

## *Tax Credits Vs. Deductions*

As part of the Energy Policy Act of 2005, tax credits for energy efficiency will give consumers many happy returns when filing their 2006 and 2007 tax forms.

Tax credits are not the same thing as deductions—they're better. Deductions only reduce the amount of income that is taxed, *before* the tax amount is calculated. The result? Only a percentage of the deducted amount reduces the calculated tax.

A tax *credit*, however, is a direct, dollar-for-dollar reduction of the tax you owe. For example, consumers who purchase the most fuel-efficient vehicles could reduce their tax liabilities by up to US\$3,400. Those who install certain products, such as energy efficient windows, insulation, doors, roofs, or heating and cooling equipment in their homes can subtract up to US\$500 from their tax returns.

Although a tax credit won't cover the entire cost of these purchases or installations, the money saved through energy efficiency will help compensate for that upfront expense over the lifetime of the improvements. And given a few years, the improvements will likely pay for themselves in energy savings and reduced utility bills.

## *Credit Checklist*

Now that you know a bit about tax credits and what sorts of things might qualify, you may be asking yourself, "How does this help me?" These tax credits can help if:

- You need to replace one or more major appliances or home fixtures (such as windows)
- Your home is in need of renovation, major repair, or upgrading for efficiency
- You're thinking about adding a renewable energy source to your home
- You're going to buy a new car

Think about what you need first. Do you have high gas or electric bills? Are there rooms in your home that are too hot, or too cold and drafty? Do you need to replace your furnace or air conditioning equipment? Make a checklist

## **Tax Breaks for Businesses**

Businesses are also eligible for several tax credits, which include buying hybrid vehicles, constructing energy efficient buildings, improving the energy efficiency of commercial buildings, and investing in solar energy technologies, such as PV and solar hot water systems. Builders may be eligible for tax credits for constructing homes that meet stringent energy efficiency qualifications, and take advantage of a business tax deduction of US\$1.80 per square foot for newly constructed buildings that use half as much energy as those that meet current energy code standards.

The energy bill also substantially increases the business investment tax credit from 10 to 30 percent. This tax credit is available to businesses that purchase solar thermal and PV systems during calendar years 2006 and 2007. The business investment tax credit for solar equipment does not have a maximum credit limit.

of what you'd like to do from the eligible improvements list and see if one or more apply to you. Even small home improvements, like adding insulation and weather-stripping around doors and windows, can shave a little bit off your taxes, while saving energy and cutting your utility bills.

A certified home energy auditor can determine which improvements will provide you with the largest savings and verify that the work done by contractors has been done correctly. The Residential Energy Service Network (RESNET; [www.resnet.us](http://www.resnet.us)) has a network of auditors that provide services in all states. However, having an audit is not a prerequisite for receiving the tax credits.

### Advantages at Home

Specific tax benefits for the home are listed in the table. Possibly the best credits the new energy bill offers are for homeowners who invest in residential solar energy systems, such as solar-electric (photovoltaic; PV) and solar hot water systems. Taxpayers are allowed one credit equal to 30 percent of the qualified investment in a solar-electric system, up to a maximum credit of US\$2,000, and another equivalent credit for investing in a solar water heating system. (The credit does not apply to equipment used to heat swimming pools or hot tubs.)

Solar hot water systems must be certified by the Solar Rating and Certification Corporation (SRCC) and produce 50 percent or more of the home's hot water needs. PV systems don't require a qualification, except in Florida, where

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### Solar Energy

	Tax Credit
Solar domestic hot water systems (must provide at least 50% of hot water needs)	30% of cost, up to \$2,000
Solar-electric systems	30% of cost, up to \$2,000

### Cars

Hybrid, diesel, EV, alternative fuel & fuel cell	Determined by vehicle weight, technology & fuel economy
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### Home Construction/Renovation

Exterior windows	10% of cost; not to exceed \$200
Skylights	10% of cost; not to exceed \$200
Exterior doors	10% of cost; not to exceed \$500
Metal roofing	10% of cost; not to exceed \$500
Insulation	10% of cost; not to exceed \$500

### Home Heating & Cooling Systems

Central air conditioning	\$300
Air-source heat pumps	\$300
Geothermal heat pump	\$300
Gas, oil, or propane water heater	\$300
Electric heat-pump water heater	\$300
Gas, oil, or propane furnace or boiler	\$150
Advanced main air circulating fan	\$50

Source: [www.energystar.gov](http://www.energystar.gov); see Web site for specific requirements

## Get the Star

When it comes to energy efficient upgrades, think Energy Star for your home appliances and heating and cooling equipment. This program, administered by the U.S. Department of Energy and the U.S. Environmental Protection Agency, helps identify energy smart products. Appliance and fixture manufacturers submit their products and, if they meet the program's standards, earn the right to use the label on their products and in their advertising. Energy Star appliances and fixtures will help you save energy—they are made to use less energy to do the same amount of work as an average appliance. For more information and a list of qualifying products, visit the Energy Star Web site at [www.energystar.gov](http://www.energystar.gov).

systems must be rated and certified by the Florida Solar Energy Center to receive the tax credit.

All improvements must be installed in or on the taxpayer's principal residence in the United States. Home improvement tax credits apply to improvements made between January 1, 2006 and December 31, 2007. With an annual cap of US\$500 (except for solar hot water and solar-electric systems), consider timing improvements to take full advantage of the available credits.

### On the Road

The new tax credits also include help for auto buyers shopping for fuel-efficient vehicles. Depending on the vehicle's fuel economy and weight, tax credits range from US\$250 to \$3,400. Businesses that invest in heavy-duty hybrid trucks can receive larger tax credits (see the sidebar on facing page).

The new tax credit is for vehicles placed in service beginning January 1, 2006. But because there is a waiting list for many hybrids, note that you can still take advantage of the tax credit even if you arranged to purchase the vehicle in

2005—as long as you did not take possession of it until after January 1 of this year.

The vehicle tax credit will be phased out for each vehicle manufacturer once that company has sold 60,000 eligible vehicles. At that point, the tax credit for that company's vehicles will be gradually reduced over the course of another year. In other words, the full benefit of the tax credit is a limited-time offer. If you're in the market for a new car, consider shopping (and buying) as soon as you can.

### Save Even More

Federal tax credits are only part of the picture. You also may be eligible for utility or state rebates, and may be able to take advantage of state tax incentives for energy efficient homes, vehicles, and equipment. Check out your state's energy tax breaks and other incentives at [www.dsireusa.org](http://www.dsireusa.org). Also, be sure to ask your tax preparer or seek advice online for ways to find these additional tax breaks—you may spend some extra time filling out your tax forms, but you and your bank account will be happier for it.

Don't forget: These tax credits will be available starting with *next* spring's tax preparation. They won't be available for tax forms filed this year. To get help figuring out which home improvements and purchases qualify, consult a professional tax preparer or go online to [www.irs.gov](http://www.irs.gov). But start preparing now, and you'll be money—and energy—ahead when next tax season rolls around.

### Access

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